

Message Text

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PAGE 01 BRASIL 00890 021525Z

46

ACTION EB-07

INFO OCT-01 ISO-00 AF-06 ARA-06 EA-07 EUR-12 NEA-10 IO-11

AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 USIA-06 PRS-01

SP-02 FEAE-00 OMB-01 /132 W
----- 010478

R 021420Z FEB 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 3649
AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO
USDEL MTN GENEVA
USMISSION OECD PARIS
USMISSION EC BRUSSELS

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E. O. 11652: N/A

TAGS: ETRD, BR

SUBJECT: REACTIONS TO COUNTERVAILING DUTY ON BRAZILIAN LEATHER
HANDBAGS

REF: STATE 1989

1. SUMMARY: INITIAL BRAZILIAN REACTION TO US JANUARY 6
ANNOUNCEMENT ON LEATHER HANDBAGS WAS LIMITED IN PUBLIC
BUT SHARP AND BITTER IN PRIVATE. MORE RECENTLY, SEVERAL
MAJOR SUBSTANTIAL ARTICLES CRITICAL OF US ACTION
HAVE APPEARED IN THE NATIONAL PRESS. THESE ARTICLES FOLLOWED
FINANCE MINISTRY ANNOUNCEMENT THAT THE MINISTRY HAD BEGUN
A STUDY TO DETERMINE THE EVENTUAL ADOPTION OF PROTECTIVE
MEASURES FOR THE EXPORTER AS WELL AS THE DEVELOPMENT OF
ALTERNATIVE MARKETS, MAINLY IN WESTERN AND EASTERN EUROPE.

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PAGE 02 BRASIL 00890 021525Z

END SUMMARY.

2. ON JANUARY 7, FRANCISCO DORNELLES, ATTORNEY-GENERAL OF THE FINANCE MINISTRY AND THE PRINCIPAL GOB OFFICER CONCERNED WITH THIS ISSUE, DISCUSSED US IMPOSITION OF COUNTERVAILING DUTY WITH EMBASSY OFFICERS. REACTING SHARPLY, DORNELLES COMPLAINED THAT THE 14 PERCENT RATE WAS EXCESSIVE AND THAT IT WAS UNFAIR TO ASK EXPORTERS TO WAIT FOR A YEAR OR MORE FOR FINAL SETTLEMENT OF THE DUTY. HE SAID THAT IN HIS VIEW THE APPROACH ADOPTED BY THE USG REPRESENTED A RETROGRESSION FROM PAST COOPERATION BETWEEN THE AUTHORITIES OF THE TWO GOVERNMENTS. HE SAID THIS WAS A PRELIMINARY REACTION AND THAT HE AND HIS STAFF WOULD BE GIVING FURTHER STUDY TO THE METHOD ADOPTED BY THE USG IN ASSESSING THE RATE.

3. ACCORDING TO REPORTS IN JORNAL DE BRASILIA AND O ESTADO DE SAO PAULO THE FINANCE MINISTRY ANNOUNCED ON JANUARY 22, INTER ALIA, THAT (I) THE MINISTRY WAS UNDERTAKING A STUDY OF CONSEQUENCES OF THE IMPOSITION OF THE SURTAX IN ORDER TO ADOPT EVENTUAL PROTECTIVE MEASURES FOR EXPORTERS, (II) THE STUDY WILL ALSO CONSIDER ALTERNATIVE NEW MARKETS ESPECIALLY IN WESTERN AND EASTERN EUROPE INCLUDING THE USSR, (III) THE EXPECTATION IS THAT THE NORTH AMERICAN BUYERS WILL ABSORB THE 14 PERCENT ADJUSTMENT, (IV) THE SMALL VOLUME OF LEATHER HANDBAG SALES IN THE AMERICAN MARKET --ABOUT 7 MILLION DOLLARS IN VALUE IN 1975--WILL FACILITATE THIS ABSORPTION, AND (V) THE INCREASE IN THE PRICE OF BRAZILIAN HANDBAGS WILL NOT FAVOR COMPETITORS, "ESPECIALLY THE SPANISH", BECAUSE OF THE SMALL VOLUME SUPPLIED BY BRAZILIAN EXPORTERS.

4. O ESTADO DE SAO PAULO ON JANUARY 23 REPORTED THAT THE AMERICAN LAWYER FOR THE ASSOCIATION OF BRAZILIAN EXPORTERS HAD YET TO SUPPLY THE DETAILS OF THE PROCESS WHICH RESULTED IN FIXING THE COUNTERVAILING DUTY AT 14 PERCENT. THE ASSOCIATION ASKED THE WASHINGTON LAWYER TO STUDY THE POSSIBILITY OF ADOPTION OF SOME MEASURES WHICH COULD STOP THE IMPOSITION OF THE COUNTERVAILING DUTY. O ESTADO DE SAO PAULO QUOTES RIO SOURCES AS SAYING "EVERYTHING INDICATES THAT THE REQUEST WAS MADE TOO LATE." O ESTADO ALSO REPORTS THAT "THE EXPORTERS ARE PRACTICALLY CONVINCED THAT THEIR SPANISH COMPETITORS INFLUENCED THE DECISION OF THE TREASURY LIMITED OFFICIAL USE

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PAGE 03 BRASIL 00890 021525Z

DEPARTMENT WITH THE PURPOSE OF PUSHING ASIDE BRAZIL IN THE NORTH AMERICAN MARKET."

5. O ESTADO DE SAO PAULO ON JANUARY 22 REPORTED THAT THE INDUSTRY CONSIDERS IT ALMOST TOTALLY IMPOSSIBLE TO ABSORB THE SURTAX IN THEIR COSTS. PRESIDENT RUBENS BRAKARZ OF TREVOLI SA, ONE OF THE LARGEST EXPORTERS OF BRAZILIAN HANDBAGS, CONSIDERED THE SURTAX ON BRAZILIAN HANDBAGS AS

DEMONSTRATING TOTAL INCOMPREHENSION ON THE PART OF THE US ABOUT THE FISCAL INCENTIVE POLICIES OF BRAZIL. TREVOLI WAS QUOTED: "WHAT IS HAPPENING, IN BRIEF, IS A DEVELOPED COUNTRY IS PROVOKING UNEMPLOYMENT IN THE INDUSTRIAL SECTOR OF A DEVELOPING COUNTRY."

6. JORNAL DE BRASILIA ON JANUARY 9 QUOTED ROBERTO MAMEDE OF INDUSTRIA DE BOLSAS MAMEDE (MAMEDE HANDBAG INDUSTRY) IN FRANCA, AN IMPORTANT SHOE AND HANDBAG MANUFACTURING CITY IN SAO PAULO STATE: "THE INDUSTRY WAS EXPECTING THE SURTAX ALTHOUGH NOT THIS HIGH; BUT KNOWING THE POSSIBILITY FOR MORE THAN THE LAST SIX MONTHS, THE EUROPEAN MARKET WAS BEING PREPARED AAND TODAY CONSUMES 80 PERCENT OF THE PRODUCT OF FRANCA WHICH IS 1200 UNITS DAILY." THE SAME ARTICLE STATED THAT THE NEW YORK TIMES CONSIDERED THIS THE HIGHEST SURTAX IMPOSED IN THE LAST 80 YEARS BY THE US ON PRODUCTS OF OTHER COUNTRIES."

7. ACTION REQUESTED: EMBASSY WOULD APPRECIATE BEING INFORMED: (A) IS THE STATEMENT ATTRIBUTED TO THE NEW YORK TIMES CORRECT, I.E., IS 14 PERCENT ON BRAZILIZN HANDBAGS THE HIGHEST COUNTERVAILING DUTY IMPOSED TO DATE; (B) DOES DEPARTMENT HAVE COMMENT ON DORNELLES'S CHARGE THAT USG HAS CHANGED ITS APPROACH, AS COMPARED WITH THE SHOE COUNTERVAILING DUTY DETERMINATION, WITH RESULT OF HIGH DUTY RATE AND DEFERRAL OF LIQUIDATION. WE ARE PARTICULARLY INTERESTED IN VIEW OF THE POSSIBILITY THAT THE COUNTER-VAILIG DUTY TO BE DETERMINED ON BRAZILIAN CASTOR OIL COULD BE UP TO 24 PERCENT SEE STATE 022859).
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LEATHER, COUNTERVAILING DUTIES, HANDBAGS, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL00890
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760039-0134
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760293/aaaaddnq.tel
Line Count: 145
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 1989
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAR 2004 by ElyME>; APPROVED <19 MAY 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REACTIONS TO COUNTERVAILING DUTY ON BRAZILIAN LEATHER HANDBAGS
TAGS: ETRD, BR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006